



HEALTH CARE AND HUMAN SERVICES POLICY, RESEARCH, AND CONSULTING - WITH REAL-WORLD PERSPECTIVE.

Compensation: Retention, Performance and Force Management

// Reenlistment bonuses treat people like they were machines"

Dr. Walter Oi

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Economics of Retention and Compensation: Perspective

- Economic paradigm of occupational choice:
 - Extensive margin
 - Retention: Rational member or potential recruit chooses a career path to maximize utility, which is a function of both pecuniary and non-pecuniary factors
 - Intensive margin
 - Performance/productivity: member chooses to exert effort on the job and to invest in skills, assignments etc., to maximize utility.
 - Value of non-pecuniary aspects can be revealed through member's voluntary choices within the organization (intensive margin) or, ultimately, through retention decisions (extensive margin)
- Much of the research has focused on the relationship between compensation and retention

Background

- The link between military compensation and the retention of military members has, arguably, been the most studied area of military personnel economics
- General military pay raises and Selective Reenlistment Bonuses has been the focus of much of the research
 - These components of total compensation have probably had the greatest effect on overall military retention
 - Examples include:
 - Enns (1977) on reenlistment bonuses
 - Goldberg and Warner (1982)
 - Hosek and Peterson (1985)
 - Hogan, Mackin (2006)
 - Many more
- Other retention bonuses have also been studied
 - Navy and Air Force aviation bonuses
 - Navy Nuclear Power officer bonuses
- Efforts to provide estimates of the effect of the military retirement system, and changes in that system, on retention have resulted in significant method contributions
 - Annualized Cost of Leaving Model (Nelson, Enns, and Warner, (1984)
 - Dynamic Retention Model (Gotz and McCall, 1984)
 - Estimating Dynamic Models (Daula and Moffit, 1995)

Background

- The data required to analyze the relationship between retention and compensation is relatively straightforward and available
 - A measure of compensation
 - Basic pay, allowances
 - Bonuses, special pays
 - A measure of the retention decision outcome
 - Stay or leave or extend

Broader Framework

- Clearly important to understand the relationship between compensation, in its various forms, and retention.
- However, compensation incentives should be considered in a broader framework than simply retention, as important as that is. This broader framework includes incentives for:
 - Performance
 - Skill and capability acquisition, maintenance and proficiency
 - Force management incentives
 - Assignment incentives
 - Compensating differentials for onerous or hazardous assignments

Broader Framework

- In the context of this broader framework, compensation should be structured not only to maintain or increase retention, but to help improve the force in these other ways, whenever possible.
- Research, however, lags behind in understanding and helping to establish the relationship between compensation and many of these other goals:
 - Performance
 - Skill acquisition and proficiency
 - Force management
 - Assignment and compensating differentials
- Though there are compensation incentives offered for performance, proficiency, assignment, onerous conditions, and others-
 - Unlike the relationship between compensation and retention, there is relatively little evidence regarding how well these incentives work
 - One reason for this is that the measure of performance, proficiency, etc. are not as readily available as retention measures

Performance and Productivity Measures

- Pay that is structured to reward performance should, in principle, result in inducing additional effort and higher performance levels
 - However, to test this by estimating a relationship between pay and performance, one must have an observable measure of performance
- Promotion and speed of promotion is one possibility.
 - Promotion, however, has aspects of a rank order tournament
 - May be difficult to infer that effort and actual performance/productivity has increased directly
 - However, may be able to show that productivity measures increased on average as a result of greater reward for promotion
- Direct, observable measures of performance or productivity may be available in some occupations
 - Recruiters
 - Medical and legal professions
 - Maintenance and repair

Research Examples

- Studies have estimated factors affecting productivity of recruiters
 - Hogan and Simonson (2002), for example, estimate effects of ASVAB scores, experience, and other factors on recruiter productivity
- However, Special Duty Assignment Pay (SDAP) which is offered to recruiters, has not been structured to reward productivity, but simply to provide compensation for being a recruiter
- Compensation could be constructed to provide greater incentives for performance/productivity

Skill Acquisition and Proficiency

- Under the current structure, some compensation elements do provide incentives to acquire skills, maintain them and increase proficiency
- Examples include:
 - Many largely retention focused elements of compensation require obtaining and maintaining skill qualifications
 - Aviation Career Incentive Pay/ACCP; NOIP
 - Others
 - Largely retention incentives. Maintenance of qualifications is required, but incentives are not provided for greater proficiency
 - Health professions pays
 - Some compensation is conditional on obtaining/maintaining board certification
 - Foreign Language Proficiency Pay (FLPP)

Skill Acquisition and Proficiency

- With a few exceptions, there is little empirical research examining the relationship between compensation and skill acquisition/proficiency
 - While levels of proficiency may generally be difficult to measure, acquisition and basic maintenance of the skill is less difficult
- Research examples: FLPP
 - Hogan, Mackin et al (2007)
 - Provide empirical evidence that FLPP increases the number of members who attain proficiency in a critical foreign language and increases the numbers who score higher levels of proficiency

Force Management and Compensation Incentives

- Compensation can provide incentives:
 - To accept onerous duty assignments
 - To compensate for arduous or dangerous conditions
 - To increase service commits
 - Others
- Examples include
 - Assignment Incentive Pay
 - Sea Pay
 - Deployment and Combat-related pays
 - Greater retention bonuses for greater service obligations

Force Management and Compensation Incentives

- With some exceptions, there has been relatively little research devoted to understanding the relationship between force management and compensation and its potential for improving force management efficiently
- Examples of research that set the stage:
 - Warner and Goldberg (1984) Non-pecuniary factors
 - Hosek (2003): Deployment and retention
 - Debbie Clay-Mendez (1981) Sea Shore Rotation
 - Warner and Simon (2009) Enlistment bonuses and contract length
- However, in the literature that is there, there is little that actually related compensation to, for example, assignments fill rate and fit rates, etc.

Impediments to Research on the Non-Retention Behavioral Linkages

- Data is probably the most important limitation to research
 - Measures of performance, proficiency, etc. are not routinely available
 - More ad hoc data preparation, compared to retention
- Actual instances where compensation is linked, or potentially linked, to behavior in addition to retention are relatively scarce
 - Assignment
 - Credentials
 - Language proficiency
 - Contract length

Summary and Conclusions

- The relationship between compensation and retention has been much studied
 - Much is known about the effects of compensation on retention
 - As always, there is certainly more to do
- Relatively more emphasis should be placed on other behavioral responses to compensation
 - Estimate and evaluate effects, when compensation does address additional performance, proficiency or force management issues
- In the longer run, a broader empirical and theoretical research base for compensation, focusing on performance, proficiency, and force management issues in addition to retention, should provide a broader foundation
- This foundation may, in turn, result in more innovative ways that compensation can be used to improve performance, force management and readiness

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